STATE OF MAINE
PUBLIC UTILITIES COMMISSION

October 31, 2000

ORDER

NORTHERN UTILITIES, INC.
Proposed Cost of Gas Adjustment
For Winter 2000-2001

Docket No. 2000-680

NORTHERN UTILITIES, INC. –MAINE
Proposed Cost of Gas Adjustment
(Winter 1999-2000)

Docket No. 99-586

NORTHERN UTILITIES, INC.-MAINE
Proposed Tariff Revision to Recover
Wells Project Surcharge from Certain
Transportation Customers

Docket No. 99-873

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2000 - 2001 winter period as updated on October 3, 2000 and an Environmental Response Cost Adjustment (ERCA) of ($0.0127) per Ccf.
The CGF rate we approve includes a surcharge for Wells project costs of $0.0110 and include costs for Northern's revised capacity contract with Granite State Gas Transmission Company (Granite). [1]

II. PROCEDURAL HISTORIES

A. Northern's Winter 2000-2001 CGF, Docket No. 2000-680

On August 22, 2000, pursuant to 35-M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Winter 2000-2001 gas usage period as well as its proposed change to the ERCA as allowed in Docket No. 96-678. The Commission issued a Notice of Proceeding to interveners in prior CGF cases and by publication in newspapers of general circulation in Northern's service area. The Office of the Public Advocate (OPA) intervened.

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[1] These items are being addressed in Docket Nos. 1999-873 and 2000-619, respectively.

To investigate the proposed CGF changes, the Advisory Staff and the OPA issued data requests to the Company on its filing. A preliminary hearing was held on September 28, 2000 at which the Advisory Staff and the OPA explored the issues raised by this filing. In addition, the Hearing Examiner established a schedule for the remainder of this proceeding that included allowing Northern to update its filing.

On October 3, 2000, as part of its responses to Oral Data Requests, Northern filed a revision to its CGF filing incorporating an updated forecast of winter period commodity costs and the effect of its proposed upstream capacity contract with Granite.

The Advisory Staff issued a proposed order recommending approval of Northern's proposed CGF on October 23, 2000.

B. <u>Northern's Proposed Winter 1999-2000 CGF, Docket No. 99-586</u>

By Order dated October 28, 1999, we decided to open an investigation into Northern's proposal to apply a surcharge designed to recover cancelled project costs for the Wells liquefied natural gas (LNG) facility from transportation customers as well as sales customers.

Also in Docket No. 99-586, we approved the return to ratepayers of one-half of its $2.1 million in ERCA insurance recoveries, subject to later determination that the recovery methodology, amount and allocation to Northern – Maine were just and reasonable. We resolve this matter herein.

C. <u>Proposal to Apply Wells Project Surcharge to Transportation Customers, Docket No. 99-873</u>

On December 3, 1999, Northern filed a proposed change to its transportation tariff consisting of Original Page 30.14, pursuant to a stipulation in *Northern Utilities, Inc., Maine Public Utilities Commission Investigation of Northern's Termination Agreement with Granite State Gas Transmission Company,* Docket No. 99-259, Order (Dec. 3, 1999).

The Commission issued a Notice of Investigation to parties in Docket Nos. 99-586 and 99-259. Northern withdrew the original tariff and filed a revised tariff and the prefiled testimony of Joseph Ferro on August 1, 2000. Staff issued Data Requests to the Company.

A preliminary hearing and technical conference was held on October 5, 2000 at which the interventions of the OPA were granted. The Staff and OPA questioned Northern's witness about the proposed tariff. The Hearing Examiner discussed the need for further notice to customers with the parties and placed legal advertisements, outlining this proceeding and inviting interested persons to intervene, in the Portland Press Herald and the Lewiston Sun Journal that were run on October 12 and 13, 2000.[2] The Commission did not receive any further petitions to intervene in this proceeding.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts and any other materials provided in Docket Nos. 2000-680 and in 99-873. In addition, we include Northern's response to Oral Data Request 1-1 in Docket No. 2000-619.

IV. LATE FILINGS

On August 10, 2000, Northern requested an extension to the required filing date of August 15, 2000. On August 14, 2000, the Hearing Examiner granted Northern an extension in its filing date until August 22, 2000. Although Northern filed its CGF schedules on August 22, 2000, it did not file its pre-filed testimony addressing the filing until August 28, 2000.

Further, we note that this is not the first such extension we have granted. Northern has made its CGF adjustment filing late on each of the last six periods. This shortens the time available to staff to review Northern's filing before the proposed implementation date of November 1st and makes the smooth processing of the case more difficult.

We expect Northern to be more diligent in the future and make its complete filing as required by the Commission's Rules and statutory requirements. If Northern's late CGF filing recurs, we may use the full time allowed by statute for our review resulting in implementation of the seasonal rate after November 1st or May 1st. In this circumstance, we would also consider imposing an appropriate penalty, perhaps requiring Northern to forego recovery of any revenue losses resulting from such a delayed implementation.

V. DISCUSSION

A. Overview of Proposed Rates

In its updated filing, Northern proposed the following 2000-2001 winter period rates on a per hundred cubic feet (Ccf) basis, which include the Wells surcharge of ($0.0130), to become effective November 1, 2000:

[2] Northern stated that it also provided notice of this proceeding, by letter, to one of its transportation customers pursuant to its special contract with that customer.

Class	Rate
Residential Heat & Non Heat (R-2 & R-1)	$0.7626
HLF Small (G-50)	$0.6875
LLF Small (G-40)	$0.7715
HLF Medium (G-51)	$0.6989
LLF Medium (G-41)	$0.7705
HLF Large (G-52)	$0.6903
LLF Large (G-42)	$0.7616

The filing also proposed an ERCA of ($0.0127) which includes current year insurance recoveries as well as the prior year's insurance recoveries deferred to this period. Northern also corrects a typographical error in the ERCA tariff to change the revenue limitation percentage of 5% to 4%, consistent with our Order in Docket 96-678 issued April 28, 1997.

The substantive issues related to these proposed rates are discussed separately below.

1. Current Cost of Gas

Northern's filing reflects the increase in the cost of gas on an industry-wide basis. The cost of gas has increased substantially from the last winter period and also has increased significantly since the original filing on August 22, 2000. Northern has updated its proposal to reflect these changes in its October 3rd update.

2. Last Winter Period Under-Collection

On August 22, 2000, Northern reported a total under-collection of $384,866. Test. of Marjorie Izzo at 4. This includes an over-collection of $417,387 related to demand costs and an under-collection of $802,252 related to commodity purchases. In addition, Northern adjusted the working capital and bad debt allowances to reflect the total under-collection during the last winter period.

Maine law allows for the recovery of prior-period cost of gas under-collections, with interest, during the next corresponding seasonal period. See 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. Accordingly, the Winter 1999-2000 under-collection increases the proposed Winter 2000-2001 period unit cost of gas by approximately $0.0099 per Ccf. The reconciliation of the working capital and bad debts allowance is also reasonable; these charges are calculated as a percentage of the cost of gas.

3. Transportation Contract with Granite State

On July 19, 2000, Northern filed with this Commission a contract with its affiliate, Granite State Transmission Company (Granite), for transportation service, for approval pursuant to 35-A M.R.S.A. §707. The contract sets the quantities of capacity that will be available to Northern on Granite's system as well as the rates to be charged. The Commission assigned this case Docket No. 2000-619. Northern updated its CGF filing to reflect the additional costs that would be incurred as a result of the contract with Granite, because the contract is proposed to take effect November 1, 2000. These additional costs add $0.0044 per Ccf to the CGF rate and are reconcilable should the outcome of Docket No. 2000-619 require.[3] Northern's actual supply costs will be reflected in the next winter reconciliation.

4. Wells Surcharge

a. Prior-period under-recovery

The current CGF filing includes an additional amount to collect under-recoveries of the Wells surcharge from the prior year.[4] In reviewing the calculation of these under-recoveries, we noted that Northern used estimates for recoveries in the months of August through October of 2000. In addition, Northern did not include any November recoveries at the Wells Surcharge rate approved in the 2000 Summer CGF period. We will approve the inclusion of the under-recoveries with the express understanding that the next true up of the Wells Surcharge will include the proper true up to actuals for these months.

b. Customers Subject to Wells Surcharge

We approved the recovery of a portion of the costs associated with Granite's cancelled Wells LNG project from Northern's customers in Docket No. 99-259. As part of a stipulation in a related FERC case (CP99-238-000), Northern agreed to propose that the Wells costs be recovered from some or all of Northern's transportation customers in addition to its sales customers.[5] On December 3, 1999, Northern filed a proposed transportation tariff revision to allow it to recover the

[3] See Oral Data Request 1-1, Docket No. 2000-619.

[4] Under the settlement in Docket No. 99-259, Northern is entitled to collect under-recoveries of its Wells project costs allocated to Maine in a future surcharge without interest.

[5] Sales customers are those who purchase natural gas directly from Northern, rather than from a third party, and use Northern's system for delivery.

Wells surcharge from certain transportation customers as well as from sales customers.[6]

Northern asserts that customers that have migrated from sales service to transportation-only service should be allocated a portion of the costs of the Wells project because the Wells costs were incurred to meet Northern's expected future load requirements, which included the load requirements of these customers. Northern also argues that, by the same logic, transportation customers who were not formerly sales customers should not be subject to the Wells surcharge.

Northern is concerned accessing the Wells surcharge only on sales customers would result in an artificial incentive for customers to prefer transportation service to sales service. As a matter of principle, we agree. The Wells project costs derive from a cancelled supply-related project. They are, therefore, stranded in the sense that they are not costs of providing service and are not included in rates without explicit Commission approval.

Our general policy has been that stranded cost charges should be broadly applied, with distribution system charges. However, Northern is proposing to assess Wells costs to some, but not all, transport customers. It would exempt two groups. First, it would exempt new transport customers and customers who have never taken sales service. This proposal raises two problems. Such an approach would skew new customers decisions between sales and transport service. Under Northern's proposal, a new customer could avoid Wells costs only if it opted for transport service, creating a bias in favor of that decision. In addition, applying stranded costs charges to some, but not all, customers appears inequitable.

Northern also supports its approach with a cost causation argument – in deciding to proceed with the Wells LNG facility, it was considering only the demands of its sales customers. Transport only customers would not use the Wells facility, and therefore should be exempt from paying the charge. Northern did, however, base its Wells decision on forecasts of future customer demand, including demand from new customers coming on the system. There was no way to determine which form of service any specific new customer was going to request until that

[6] This is under consideration in Docket No. 99-873. However, because Northern proposes to implement the tariff change on November 1, 2000, the outcome of Docket No. 99-873 impacts the CGF rate established in this case. Consequently, we are here issuing a joint Order for these dockets. Under Northern's proposal to recover the Wells surcharge from sales customers and certain transportation customers, the surcharge would be $0.0122 per Ccf. If the surcharge applied to sales customers only, it would be $0.0167. If all the transportation customers and sales customers were subject to the Wells surcharge, it would be $0.0110. See Ferro Test. At 7 (Docket No. 99-873).

customer actually made the choice. Furthermore, new customers who do opt solely for transport service can opt to take sales service in the future. Therefore, we see no reason to treat these customers differently from other customers.

Northern also proposes to exempt three current transport customers. However, at the technical conference in this case and in response to data requests, the Company has indicated that it has not identified any contractual reasons why it could not charge these customers for a share of the Wells costs. We conclude that the Wells surcharge should apply to all customers and approve the surcharge of $0.0110 per Ccf.

5. Demand Forecast

In our Order approving Northern's summer period 2000 CGF, we ordered Northern to include in its 2000-2001 Winter CGF filing an analysis of the forecasting variances that had been occurring in the past periods. *Northern Utilities, Inc., Proposed Cost of Gas Factor for Summer 2000 Period,* Docket No. 2000-140, (Apr. 28, 2000). In a technical conference in that case, Northern stated that it believed the variances occurred because its forecasting program did not accurately reflect the effects of the marketing moratorium during which Northern stopped soliciting new customers.

However, Northern did not provide any explanation of forecast variances in its August 22nd filing in this case. Upon inquiry by Staff, Northern provided some information in response to a data request. At the September 28th technical conference, we explored two aspects of the forecast.

First, it appeared that for the period Northern considered, August 1996 to May 2000, the forecast was relatively inaccurate.[7] In particular, Northern's forecast does not appear to explain any of the difference between actual and average sales. At the technical conference, Northern's demand forecast witness, Mr. Dziura, indicated that he would like more time to consider whether this indicated a problem with the accuracy of the forecast. Tr-A at 42-44.

The second area discussed at the technical conference was Northern's argument that the errors in forecasting are the result of the sales moratorium. The parties and Staff discussed an analysis, Advisors' Exhibit 2, which appeared to indicate that Northern's forecast model predicted sales more accurately during the moratorium period than for non-moratorium periods. This suggests the moratorium may not be the

[7] One common measure of the accuracy of a forecast is to calculate the percentage of the variance in the variable to be forecasted, in this case sales, which is explained by the forecast. For example, the actual sales during a period of time might differ from the mean sales over that period by 100 units, on average. If the analysis explains a variation from the mean of only 50 units during the period, we could conclude that the forecast was explaining one-half, or 50%, of the variation.

reason for the forecast errors. Again, Mr. Dziura indicated that he would like an opportunity to consider this more fully. Tr-A at 44-46.

Despite our request in Docket No. 2000-140 that Northern address the adequacy of its forecasts in its winter 2000 period filing, we are left with an incomplete record. We believe this issue requires more serious attention than it has received to date. Accordingly, we will order Northern to file within 30 days of this order a work plan showing what analysis it intends to undertake to review its forecast methodology and a schedule indicating when it will complete each step in that analysis. The schedule should provide for the completion and filing of any necessary analysis by February 1, 2001 to allow consideration in the next CGA.

6. Environmental Response Cost Adjustment (ERCA)

Northern has included in this CGF filing remediation costs incurred during the period July 1999 to June 2000, consistent with our order in Docket No. 96-678. Northern has also included one-half of its most recent insurance recoveries for environmental remediation expenses in this filing. The method used to allocate the recoveries between Northern-Maine, Northern-New Hampshire, and Bay State Gas appears to be consistent with that used in the prior year. We held open the last winter's CGF case, Docket No. 99-586, to allow Commission staff time to fully review the allocations methods used. The staff has completed this review and finds it reasonable. We concur and approve the insurance recoveries allocated to Northern-Maine in that case. Therefore, we close Docket No. 99-586.

We further find that the new insurance recoveries reported in this CGF are consistent with this methodology and are approved for recovery herein.

As noted above, Northern also proposed certain changes to its tariff language for the ERCA to correct a typographical error. These changes decrease the revenue limitation percentage from 5% as stated to 4%. Because this change makes the tariff consistent with our order in Docket No. 96-678, we approve it.

7. Other Items

a. Unaccounted-for gas

It has recently come to our attention that Northern's "unaccounted-for" gas increased substantially in 1999.[8] The reasons for this increase remain unclear. Because time has not permitted a full investigation in this docket of the issue, we make no adjustment to Northern's CGF herein. However, we will continue to

8 Our reports indicate that Northern's unaccounted for gas since 1996 is as follows: 1996 -- 2.7%; 1997 – 2.30%; 1998 – 2.64%; 1999 – 5.20%.

look into the causes of the increases and, if necessary, will adjust future CGF rates to reflect a reasonable level of unaccounted for gas expense.

To assist in our review of this matter, we direct Northern to report on its activities to identify the reasons for, and reduce, its current level of unaccounted-for gas and to explain the recent increase in unaccounted-for gas, by December 15, 2000.

b. Regulatory Compliance

As noted above, in recent years, Northern has repeatedly failed to make completed CGF filings on a timely basis. Staff addressed this concern with the Company last winter period and were told that Northern was planning to streamline its CGF processes to ensure more comprehensible and timely filings. Because it files in three jurisdictions each year, Northern's staff is often strained in its efforts to provide its CGF filing in Maine on a timely and accurate basis. In response to a data request in this case, Northern reports that it has recently lost accounting personnel and has not had resources to streamline its CGF processes. We remain concerned that Northern is operating with fewer resources than it needs to make accurate and timely CGF filings. This, in turn, strains our staff resources and cuts into the time necessary for a thorough regulatory process. We direct Northern to report to us also by December 15, 2000 on its efforts to address this problem.

Finally, we note that Northern failed to comply with our Order in Docket No. 2000-140 requiring it to file, with its 2000-2001 Winter CGF filing, an explanation of its forecasting variances as discussed earlier. Northern did not file any information on this subject until staff questioned its absence during the discovery stage of this proceeding.

Northern should be aware that if it does not improve its performance, at the time of the next rate case, we may consider appropriate penalties, including a reduction of allowed rates of return for common equity

IV. CONCLUSION

We approve Northern's proposed 2000-2001 Winter Period CGF based on the Advisory Staff's recommendation. We also approve Northern's revised ERCA rates.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s proposed Second Revised Sheet No. 34.1, Environmental Response Cost Rate Adjustment and its Eighth Revised Sheet No. 34.3, Calculation of the Environmental Response Cost Rate Adjustment, is approved and will become effective November 1, 2000.

2. That Northern shall file within five (5) days its Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period November 1, 2000 through April 30, 2001 including the Wells surcharge calculated for application to all customers.

3. That Northern Utilities, Inc. shall report on the reasons for and plans to address the recent increases in unaccounted for gas and its efforts to improve regulatory compliance by December 15, 2000.

4. That Northern shall file within five (5) days its Second Revised Page 30.14 to conform with this order; and

5. That Docket Nos. 99-586 and 99-873 are or will be closed upon satisfactory completion of compliance.

Dated at Augusta, Maine, this 31st day of October, 2000.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.